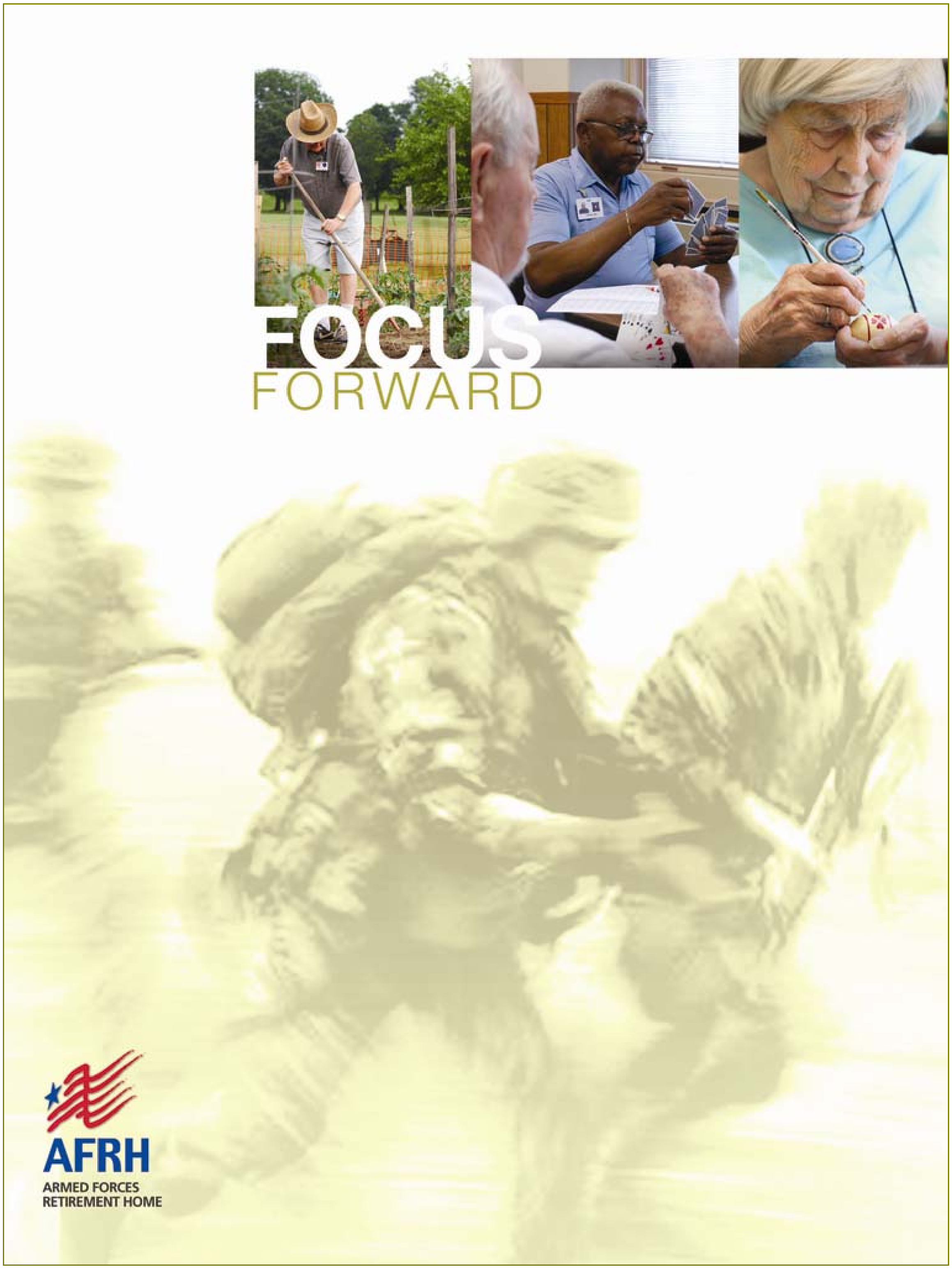
CONGRESSIONAL BUDGET JUSTIFICATION
FISCAL YEAR 2011



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AFRH Residents traveled to Japan to "play softball for peace" and share with their Japanese veteran counterparts.

APPROPRIATION LEGISLATION

TRUST FUNDS

For expenses necessary for the Armed Forces Retirement Home to operate and maintain the Armed Forces Retirement Home—Washington, District of Columbia, and the Armed Forces Retirement Home—Gulfport, Mississippi, to be paid from funds available in the Armed Forces Retirement Home Trust Fund, [$134,000,000] *$71,200,000,* of which [$72,000,000] *$2,000,000* shall remain available until expended for construction and renovation of the physical plants at the Armed Forces Retirement Home—Washington, District of Columbia and the Armed Forces Retirement Home—Gulfport, Mississippi. *(Military Construction and Veterans Affairs and Related Agencies Appropriations Act, 2010.)*

INTRODUCTION

Focus Forward

The Armed Forces Retirement Home (AFRH) is proud to present this Congressional Budget Justification (CBJ) for Fiscal Year 2011.

The replacement of the hurricane damaged Gulfport facility, closed since 2005, is on schedule and on budget, scheduled for opening in October 2010. The modernization at the DC campus is on-going through a design-build of the Scott Dormitory (called the "Scott Project") approved and funded by $5.6 million and $70 million in FY 2009 and FY 2010 respectively from our Trust Fund. This funding was approved in the FY 2010 budget. Our total request for FY 2011 is $71,200,000.

AFRH is not only toward preserving the rich heritage of the military caring for its own, but expanding concepts in senior living. As we continuously look ahead, we are guiding our staff to maintain resident vitality and make AFRH a special place to call home. These efforts will build a dynamic, mutually satisfying bond between the residents and staff. Further, it will hone our focus forward, to make AFRH even more healthy and vibrant.

AFRH's actions highlight our efforts to exercise effective stewardship, maintain financial integrity and validate the successful delivery of our Mission. The transformation from an historic "Soldiers' Home" in DC to a modern CCRC advanced in FY09. We conceived a variety of plans under the Aging in Place philosophy and those plans are reflected in recent advances to staffing, programming, and construction. These concepts are also embedded in the operational plans and construction of the new Gulfport facility, which will open this year.

In FY 2009, AFRH demonstrated its commitment to progress with solid achievements in ongoing strategies. Similarly, the Home is striving to ensure our actions meet the new targets by drawing links to the new administration's efforts in healthcare and caring for veterans. In the financial realm, AFRH received its fifth annual"unqualified" audit opinion and the Trust Fund balance has reached an all-time high. Our "Exceptional Service" targets focused on providing "personalized" service by implementing Aging in Place concepts, and enlivening our military heritage. The highly successful Freedom Day event held on September 22 brought together old and new generations of military, linking the Soldiers' Home founder General Scott with President Lincoln on the 147th anniversary of the signing of the Emancipation Proclamation.

Another aim has been to continually improve services and the cost of performance. So, we are upgrading our infrastructure, information technology, resident homing devices, telephone service, wireless access and computer availability. Also, our partnership with Walter Reed to integrate veterans' medical records with existing electronic records shows great promise in taking better care of our veterans. Indeed, AFRH is transforming its entire culture to a new vision for senior living: Aging in Place. So our renewed emphasis in the Learning & Growth and Culture of Integrity actions have yielded many updated policies and procedures, new course offerings, and a more robust human capital program.

In the FY 2010 budget, the AFRH Scott Project design was funded under "Strengthening Infrastructure for the 21st Century" to improve housing for retired veterans. AFRH is making great strides with this Project, plus we're seeing great progress on our Gulfport rebuild in Mississippi. With the advent of the new administration's charge to name high-performance goals, we quickly identified our prime concerns:

Goal 1: Healthcare (Resident Wellbeing)
Goal 2: Housing (Gulfport & Washington)
Goal 3: Stewardship (Corporate Effectiveness)

Thanks to the support of Congress we have been enthusiastically partnering with GSA on the rebuilding of our Gulfport campus, closed due to damage inflicted during Hurricane Katrina in 2005. The rebuild in

Gulfport is on track for completion in the last quarter of Fiscal Year 2010. In all we do at AFRH, we are mindful to manage the resources entrusted to us in a responsible, efficient, and effective manner. AFRH has its sights set on the complete transformation of our operational model to showcase Aging in Place. A truly modern AFRH will reflect the needs of today's residents as well as those of current active duty that will need our services tomorrow.

This CBJ presents complete, reliable information that demonstrates our efforts to hold both programs and financial systems to the highest standards of accountability. As we move forward to our vision of a vibrant, economical operation at both AFRH campuses, we continue to work to use the dollars of the former military efficiently and in their best interests.

Protecting a promise | Renewing a trust.

STRATEGIC PLAN FRAMEWORK

VISION:

To actively nurture the Health and Wellness Philosophy of Aging while providing our nation's heroes with a continuum of Life Care Services in a community setting.

MISSION:

To fulfill our nation's Promise to its Veterans by providing a premier retirement community with exceptional residential care and extensive support services.

GUIDING PRINCIPLES:

Establish Accountability

We expect our workforce to achieve what we promise to our residents, staff and service partners. To ensure success, we measure progress and provide feedback to our customers.

Inspire Excellence

We continuously work to improve our processes, services and delivery while striving for excellence in all we do. We expect excellence and reward it.

Honor Heritage

We honor the rich history of the US Armed Forces – from our Veterans to our victories. As such, our campus reflects that military heritage with memorabilia and tributes.

Maintain Integrity

We will strongly uphold the mission of AFRH. We are honest and ethical and deliver on our commitments. We recognize that good ethical decisions require individual responsibility enriched by collaborative efforts.

Maximize Workforce

We strive to hire and retain the most qualified people. We maximize their success through training and development as well as maintaining and promoting open communication.

Serve Customers

Success depends on our devotion to consistently serve ever-changing customer preferences. Hence, we vow to be innovative and responsive – while offering exceptional products and services at competitive prices.

Strategic Goals

Financial Growth:	Create financial net growth and stability for the AFRH Trust Fund.
Exceptional Service:	Enhance the overall AFRH experience to enrich the quality of residents' lives.

***Improved Processes**:*	Modernize internal operations to maximize & leverage resources across AFRH.
Learning & Growth:	Promote personal excellence and professional growth for all personnel.
Culture of Integrity:	Inspire commitment to the AFRH Guiding Principles through mutual respect.

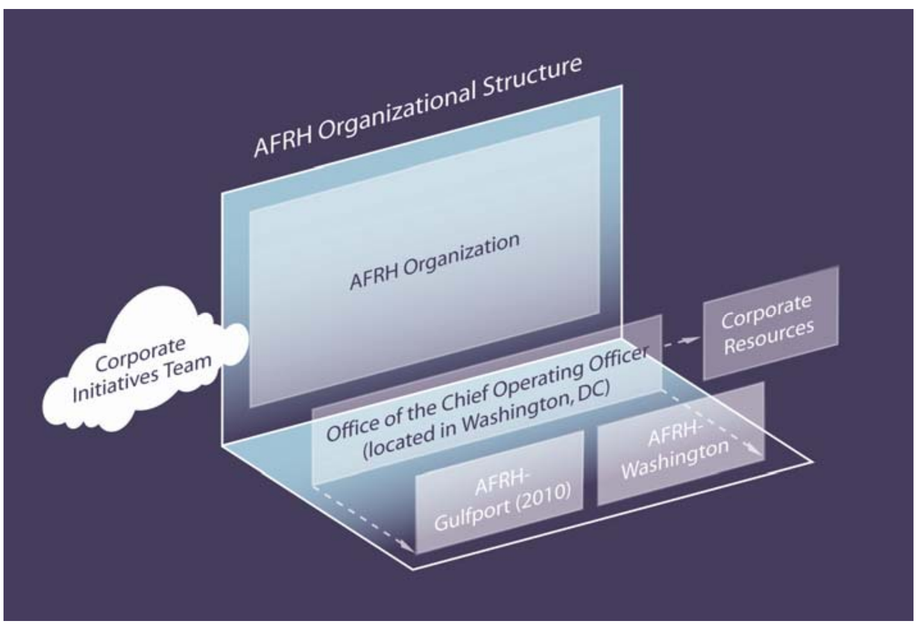
AFRH Organization

The Armed Forces Retirement Home (AFRH) was incorporated on November 1, 1991, by section 411(a) of 24U.S.C. The AFRH is an independent agency in the Executive branch of the Federal government. The AFRH has two facilities. One is located in Gulfport, MS and is being rebuilt as a result of Hurricane Katrina and the other is located in Washington, D.C. The Chief Operating Officer (COO) is subject to the authority, direction and control of the Secretary of Defense, delegated to the Under Secretary of Defense (Personnel & Readiness).

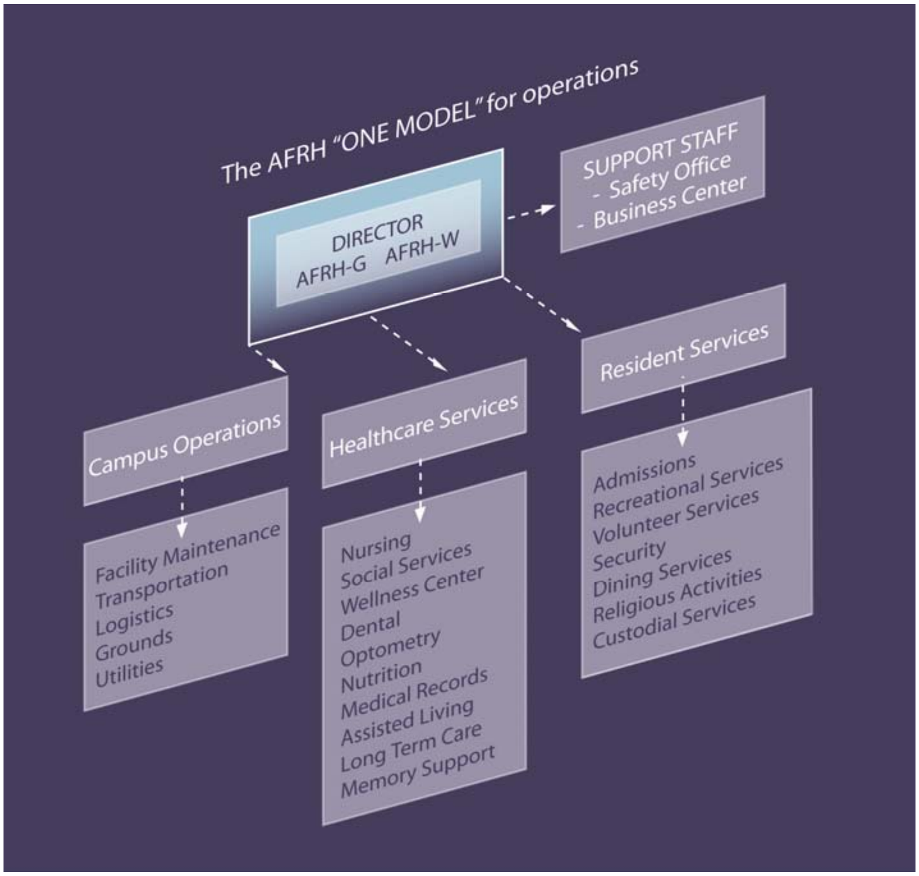
AFRH resembles a private sector Continuing Care Retirement Community (CCRC). AFRH is organized in a contemporary business establishment, with a corporate office that manages independent functioning retirement communities in different locations. This arrangement allows corporate to make strategic decisions, as well as communicate with Congress and constituents.

Using the successful "One Model" for all community operations, each Home has a Director who reports to the COO. Plus each community can make its own tactical operational decisions, manage its facilities and respond to local resident requirements.

AFRH Organizational Structure:



AFRH Campus Model:



FOCUS FORWARD: MODERNIZATION AND EFFICIENCY

RECENT ACCOMPLISHMENTS

FY 2008

October 2007
• The Gulfport building is imploded. The rubble is hauled away to clear the space for construction.
• Named GSA's "Customer of the Year" due to the extensive partnership between AFRH and GSA on strategic real estate planning

January 2008
• Demolition debris is completely removed from the Gulfport site making way to begin work on the new facility

February 2008
• On the Washington campus the historic Lincoln Cottage, operated by the National Historic Trust, opens to the public

March 2008
• GSA hosts the official groundbreaking ceremony for the new AFRH-G facility
• AFRH-Washington welcomes its new Director, Mr. David Watkins
• Two residents, both members of the AFRH-W Walking Club, receive the first 'VICTORY MEDALS' for walking 20,000 miles

May 2008
• Focused on Exceptional customer service at AFRH management offsite
• Experts began work on the 10 year AFRH Long Range Financial Plan to validate the solvency of the Trust Fund amidst renovations and rebuilding at AFRH-W and AFRH-G

June 2008
• Conducted a comprehensive resident survey, Resident Activity Survey, to assess needs for spaces for new buildings

July 2008
• National Capital Planning Commission (NCPC) approves the AFRH-Washington Master Plan to develop underutilized property on the Washington campus. Approval comes after a 6 year effort
• Completed the Beautification Project, a new landscaped area between Sherman and Sheridan buildings at AFRH-W

August 2008
• 3rd anniversary of Hurricane Katrina is observed
• Received a 5 year accreditation from the Commission on Accreditation of Rehabilitation Facilities/ Continuing Care Accreditation Commission (CARF/CCAC)

September 2008
• Began a health assessment of 995 residents, the Vitality Plan, to assess level of care services required
• Earned an "unqualified opinion" from independent external auditors (4th year in a row)

FY 2009

October 2008
• Received $5.6 million from the AFRH Trust Fund to start design and planning of Scott Project

November 2008
• Completed the health assessment of 995 residents, the Vitality Plan, to assess level of care services required

• 3 AFRH residents qualify for the 2009 National Senior Olympics (Aug 2009)

January 2009
• AFRH-Washington golf course designated “Certified Audubon Cooperative Sanctuary,” the first golf course to achieve such honor in the nation's capital.
• Created staffing models for new “right-sized” AFRH

March 2009
• Building at AFRH-Gulfport is “topped off” as all exterior construction is completed
• Finalized the 10 year AFRH Long Range Financial Plan to ensure AFRH Trust Fund Solvency and to move ahead with the Scott Project at AFRH-W
• Created AFRH Communications Plan (3 year) to guide AFRH-Gulfport Stand Up and AFRH-W Scott Project

April 2009
• Eight AFRH residents (World War II veterans) participate in “play for peace” softball game in Japan
• Hosted the first monthly focus groups for Gulfport and Washington on construction projects
• US Coast Guard Chief Warrant Officers’ Association (CWOA) and the Chief Petty Officers’ Association (CPOA) worked on their semi-annual pond beautification project at AFRH

May 2009
• Started development of support services to implement the Independent Living Plus (ILP) “Aging in Place’ service delivery model

June 2009
• Formed two interim Resident Advisory Council (RAC) committees to provide resident input for AFRH-Gulfport Stand Up and AFRH-W Scott Project

August 2009
• 4th anniversary of Hurricane Katrina is observed
• Initiated contract with CMI Management, Inc., the new facilities services at AFRH-W
• GSA selected Dimella Shaffer, Boston, Massachusetts as the Bridging Design Architect-Engineer and Jacobs Engineering as the Construction Manager (CM) for the Scott Project

September 2009
• DoD IG inspection found AFRH to be well-managed and residents as well as staff pleased to be affiliated with AFRH
• Signed MOA with Department of Interior (DOI) National Business Center (NBC) for AFRH-wide information technology services
• Completed the first AFRH Strategic Human Capital Plan (SHCP)
• Implemented an agency-wide Performance Management Program (PMP)
• Co-hosted with President Lincoln’s Cottage “Freedom Day” (September 22) honoring the 147th anniversary of President Lincoln signing the Emancipation Proclamation, the birthday of the Home’s founder General Winfield Scott, and American military service
• National Capital Planning Commission (NCPC) approved the Scott Project
• Earned an “unqualified opinion” from independent external auditors (5th year in a row)

AFRH FOCUS

Starting last year AFRH has directed its resources to four Focus Areas. Our focus forward is now on “significant challenges.” OMB called upon all Agencies to support the President’s attention to high-impact goals. These endeavors are having a great impact on AFRH modernization efforts. In fact, they have united staff and vendors to meet their end requirements.

Goal 1: Healthcare (Resident Wellbeing): Ensure exceptional resident care and extensive support.

Success in this goal area is highlighted by accreditation with CARF through 2013. Quality Improvement Plans are kept up-to-date via monthly Process Improvement (PI) meetings. The PI meetings expanded to cover AFRH high risks. The DoD IG inspection was conducted during September 2009 with no major findings. The report is forthcoming.

AFRH completed Resident Assessment Plans on 95% of residents. Those Vitality Plans were put in place during November 2008. AFRH plans that all residents receive an annual assessment with all new residents having an assessment upon entry.

Aging in Place initiatives are moving forward with a Senior Living consultant on board to offer advice and guidance. Aging in Place (AIP) as defined for AFRH is the ability of a resident to remain in one's own living unit for as long as possible, making use of supportive services, technology, special design features, and other assistance as needed in order to live as independently and as comfortably as possible. AIP staff training was conducted in October and December 2009. A pilot program for Independent Living Plus (ILP), the first unit in AIP, was developed during FY 2009 and is ready for roll-out starting in January 2010. Drawing from residents currently residing in Assisted Living (AL) and Independent Living (IL), the pilot program will be administered under the direction of the Director of Nursing (DoN).

During the pilot program a Resident Support Team (RST) will administer assistance to the ILP residents. The RST is comprised of a Supervisory Home Health Nurse, Home Health Aides, and a Home Health Social Worker. They will manage all aspects of the residents' daily life – from medical, religious and social services to rehabilitation, nutrition, and more. If residents need additional support to live a more fulfilling life, the RST will coordinate it.

Resident Satisfaction is measured annually and is well over the 70% satisfaction rate sought for. On annual surveys, residents have rated AFRH services at 74% in the "Excellent or "Good" category. This past year a Dining Survey was conducted in the Healthcare area only.

Goal 2a: Housing (Gulfport): Add residents to a fully functional facility in FY 2011.
Goal 2b: Housing (Washington): **"**Right-size" facility and give it a facelift by 2013.

The modernization projects are of such significance that we have fuller discussions. **Goal 2a: Housing (Gulfport)**: Add residents to a fully functional facility in FY 2011, and **Goal 2b: Housing (Washington**: Right-size" facility and give it a facelift by 2013 are in the section following Goal 3.

Goal 3: Stewardship (Corporate Effectiveness): Maintain overall vitality via more efficient management.

Success in this area is focused on the AFRH Trust Fund solvency. During FY2009, the AFRH Long Range Financial Plan was completed. The analysis and forecasting assured solvency. Development of the plans for AFRH in the near term and the transition years was key. AFRH also focused on its Internal Controls (IC) and developed a comprehensive Risk Management Plan. High risks at AFRH once identified, had Action Plans written about them and quality reviews scheduled.

The accuracy of financial reporting is definitely on track as AFRH received its fifth Unqualified Audit Opinion. A Financial Management Notice was created and published.

GULFPORT STAND-UP

Goal 2a: Housing (Gulfport): Add residents to a fully functional facility in FY 2011.

The Gulfport facility was destroyed by Hurricane Katrina in 2005 and funding to rebuild has been provided by Congress. General Services Administration (GSA), as the agent for the planning, design, and construction, became fully engaged in the summer of 2006. The notice to proceed on the Design-Build project was issued in January 2008. Housing will meet health, life safety and accessibility requirements. All levels of care will be enhanced to include Americans with Disabilities Act (ADA). Ground level parking will ensure vital building systems are above flood level, for continued operations during hurricane or floods. All common areas will be located on one floor, providing greater visibility to activities and encouraging greater participation. Plus, the new construction will provide greater staff and maintenance efficiencies. Residents will return to a completed facility ready for occupancy.

The project is currently within budget and on schedule. Gulfport's beach access structure is estimated to be completed during March/April 2010. The Gulfport Chapel restoration was started in June 2009 with the estimated finish also in March/April 2010 The Gulfport main facility has a projected completion date of July 2010.

AFRH-Gulfport Front Entrance Concept (top) and Actual (below) January 2010

Operational plans

Beginning in FY 2009, AFRH ramped up its efforts to plan the stand up of the operations at the Gulfport facility. The expected occupancy schedule is a 6-month transition, commencing in the fall of 2010. From exploring needs for contracts and support services to naming physical spaces and choosing furniture and fixtures, AFRH has started the process to move residents back to a fully functioning facility. The Trust Fund will provide about $21 million for the rebuild, which is reprogrammed funding for Gulfport.

In FY 2009, AFRH started Resident Focus Groups to provide monthly updated information regarding the construction project. Former Gulfport residents, residing at AFRH-Washington, are fully engaged in providing input to design decisions. A full array of communication vehicles aim to keep the residents apprised of progress: Internet, GSA reports, Fact Sheets, Weekly Bulletins, the AFRH Communicator (newspaper), and the AFRH in-house television network, Channel 99.

During FY 2010, AFRH will be actively involved in both preparing to move former Gulfport residents back to the new facility as well as preparing the building for occupancy. For former Gulfport residents, AFRH will transport individuals and household goods from AFRH-W to AFRH-G in small groups. An extensive admission priority list is maintained at AFRH. Mailings are continuous to keep residents informed of construction progress as well as needed documentation for moving to Gulfport.

In the second and third quarters of FY 2010, the AFRH-G workforce will be recruited, trained and positioned in the building. When residents will begin occupying Gulfport in early October 2010, all staff will be in place and ready to provide exceptional service. We are being cautious about not beginning operations during hurricane season for safety reasons and to ensure the workforce is ready. We programmed funds for the start up in FY 2010 followed by full operations in FY 2011.

To ready the building for occupancy, AFRH will be moving forward with securing support contracts and ramping up building utilities services and maintenance. Support services such as dining food services and healthcare services are also in the start up mode throughout FY 2010 with a fall 2010 target for full operations. Full occupancy is anticipated by March 2011.

The chance of delays due to hurricanes in the area is a risk factor which could impact when the facility will be ready. The construction contractor had some delays during the hurricane seasons in 2009 and may have some again in 2010. However, contractually the building must be completed by July 2010. We are working with GSA for a transition period should it be necessary due to such delays. Those types of delays may also impact the ability of AFRH to fully staff up and be ready to operate the building based on programmed funding.

WASHINGTON SCOTT PROJECT

Goal 2b: Housing (Washington): **"**Right-size" facility and give it a facelift by 2013.

The aim of the Scott Project is to accommodate an efficient operational model (similar to Gulfport) and to modernize the aging infrastructure at AFRH-W. That includes demolishing the Scott dormitory, building a new common area and healthcare services area, and relocating Assisted Living (AL) to the Sheridan.

This new complex will accommodate "right-sized" common areas and the healthcare functions – in energy efficient structures designed to current building codes and in compliance with the latest standards and practices in senior care design. This approach also makes the best use of the Sheridan Building, which was recently renovated to accommodate the projected IL and AL populations. The anticipated new buildings, with a combined area of 171 thousand square feet, are referred to herein as the "Commons" and the Healthcare Center. The latter will accommodate LTC and MS residents in closer proximity to IL and AL residents. This option has the advantage of drawing LTC and MS residents into the community, instead of keeping them in the remote and isolated LaGarde Building. The new Commons will include a progressive Health and Wellness Center (with medical, dental and optometry services).

Scott Building: The antiquated building systems in Scott along with its inefficient building layout which is non-ADA compliant costs AFRH over 51% of the annual maintenance costs. The excessive square footage is not needed in the common areas such as dining and the theater.

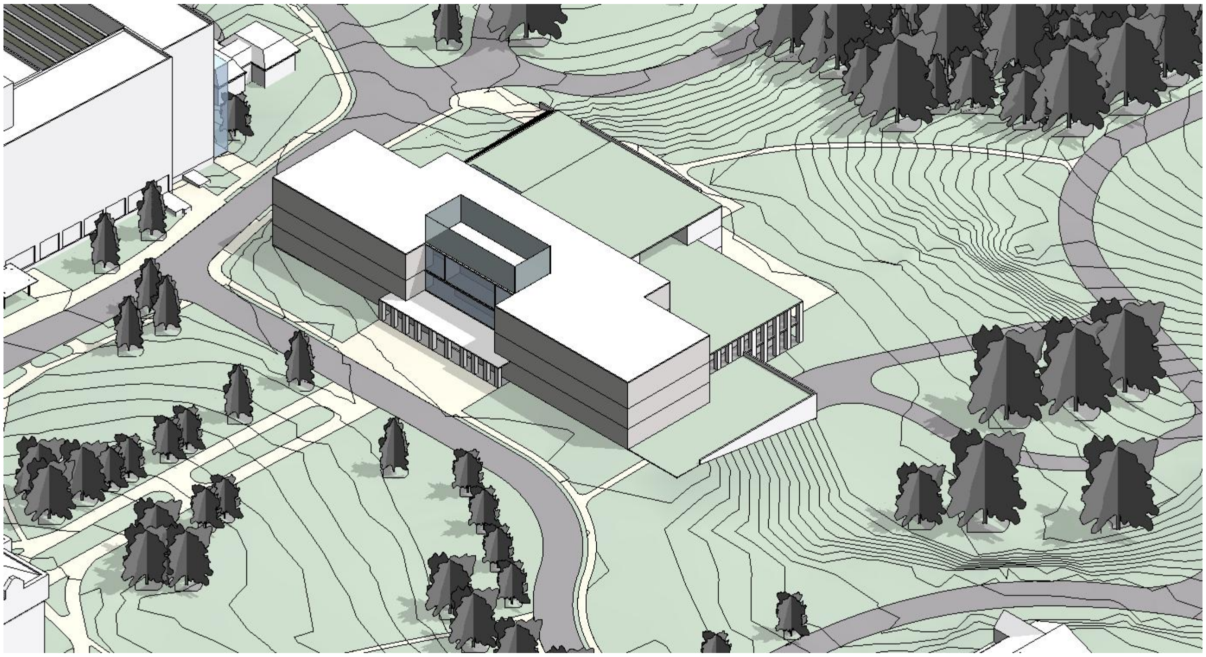
Commons and Healthcare: A new building will replace the current Scott. Built to be energy efficient with Silver Certification under The Leadership in Energy and Environmental Design (LEED) Green Building Rating System, developed by the U.S. Green Building Council (USGBC), the layout must be efficient to reduce staffing. The concept of "small house" is to be used in the Memory Support (MS) and Long Term Care (LTC) designs. The new building will be integrated with the existing Sheridan.

Sheridan: Moving AL to Sheridan will provide flexibility for residents and staff as demand changes. This design also enhances and promotes the "aging in place" concepts now being implemented. Finally, AL and IL will have access to the same common spaces and healthcare facilities.

LaGarde: Once construction is completed, the LaGarde will be closed. The result is cost operating efficiency and proximity of all residents in the historic quadrangle.

Right-Sized:
Gulfport and Washington will have similar capacity.

	IL	AL	MS	LTC	Total
Gulfport	474	60	24	24	582
Washington	450	58	24	36	568



Artist preliminary concept of the new Commons/Healthcare building.

Project Execution

AFRH partnered with GSA to manage this project via its design/build project delivery methodology, starting in August 2008. GSA procured the Bridging Design Architect-Engineer (AE), DiMella Shaffer, using GSA's Design Excellence procedures in August 2009. The Construction Manager selected is Jacobs Engineering.

In the first quarter of FY 2010, DiMella worked with the Program of Requirements (POR) created during the analysis for the long range financial plan. They developed a conceptual design which will be reviewed in January 2010.

Part of the transition issues associated with the Scott Project are the relocation of the IT and chiller/cooling tower to Sheridan before the Scott demolition. The target completion for chiller/cooling tower is May 2010. The IT environment must be moved from Scott to Sherman and the work is currently under contract.

AFRH will realize great savings in operating and maintenance costs from the proposed downsizing and consolidation of the facility, the closure of LaGarde and the elimination of the over-sized, deteriorating Scott Building. These savings are illustrated in the estimated annual operating budgets, which were developed as part of AFRH Long Range Financial Plan. Currently, the Scott Project is within budget and on schedule.

Scott Project Challenges

The Scott Project requires the collaboration and cooperation of several organizations as well as well-timed pre- and post-construction logistical maneuvers. While GSA is the Project Manager, they must coordinate the architectural firm's concepts with the Construction Manager in charge of Design Build.

The historical preservation aspect of the project, to maintain the quadrangle and the viewshed from the Lincoln Cottage, has pervaded the discussions and the requirements to maintain that. The NCPC must approve the project and ensure it conforms to the approved Master Plan. That approval was obtained in December 2009.

Transitional planning is required since the services and functions currently offered in the Scott must be relocated and operational during construction. This includes dining, healthcare, and recreation activities. A separate transition plan is being prepared with some alterations to existing space required. Moving AL residents from Scott to Sheridan must also be completed before Scott is demolished.

After the construction is completed, the healthcare residents in LaGarde must be relocated as well as all temporary transition spaces restored.

The timeline includes the design to be completed by May 2010. The Scott will be demolished by September 2011 with new construction to be completed by December 2012. LaGarde will transfer all its residents to the new Healthcare building and Sheridan beginning in February 2013.

The Scott Building in FY 2010

WASHINGTON MASTER PLAN

The National Defense Authorization Act for FY 2002 permitted AFRH through DoD to sell, lease or otherwise dispose of underutilized buildings and property. So, AFRH launched its real estate Master Plan. This Plan forms the basis of our risk management strategy.

The Washington Master Plan focus is to preserve and improve the Home for the residents and the community. At the same time the Master Plan aims to create an additional revenue stream for the Trust Fund.

In November 2002, AFRH started an effort to determine and identify what real property is essential to the core mission of the AFRH. Using the Department of Army's Inspector General Inspection of 1999, the Most Efficient Organization Study, internal reviews and a Manning Analysis we determined what core mission requirements are and how to minimize risk to the AFRH mission. The Inspector General's inspection of 1999 also identified significant cost savings which could be achieved by better management of facilities and personnel relocation

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GENERATING REVENUE

The Master Plan strives for new revenue to support our resident-focused care. This will help grow the Trust Fund and give us more capital to improve the campus. The Plan seeks to attract development at a fair market value that is compatible with the AFRH Mission. In summer 05, an open dialogue with the residents and neighbors began. At the close of FY06, a major milestone was reached: we chose three potential developers for the first AFRH redevelopment project. In 2007, a plan contract was awarded to a preferred developer for a 77-acre parcel of land, Zone A highlighted in AFRH Campus Plan chart below. In 2008 we finally received approval from the National Capitol Planning Commission (NCPC) to move forward with the Master Plan. We were poised to continue with GSA as our development partner. Although postured, AFRH never reached an agreement to proceed with the development on the campus. Although market conditions were deteriorating during the course of the discussions between AFRH and the preferred developer (April 2007 – September 2008), the cessation of negotiations was based on the inability of the respective organizations to reach agreement on several fundamental transaction-related issues related primarily to the control structure of the transaction.

Changing Focus from revenue generation to infrastructure needs

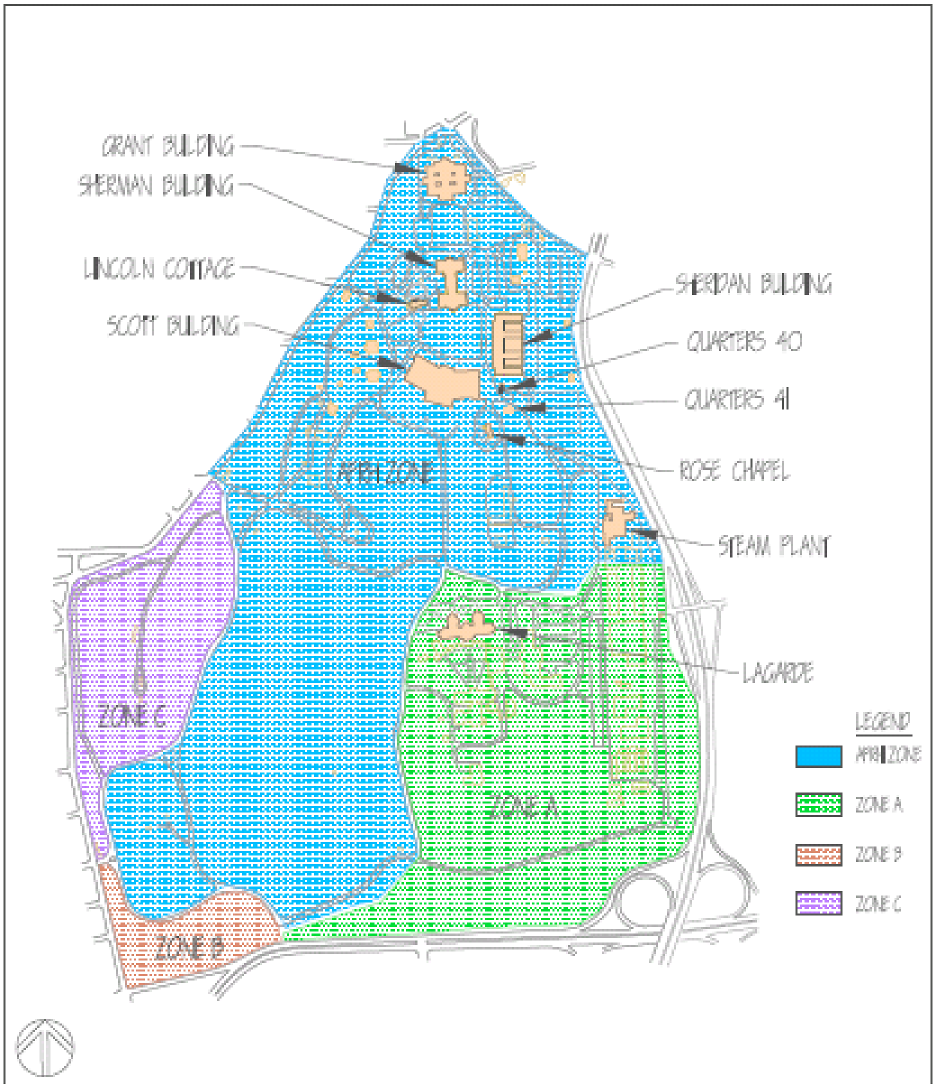
The summer of 2008 brought dramatic changes in utility and infrastructure costs. Potential real estate return on investment was plummeting. AFRH was seeking ways to maintain its vision, but keep within changing market conditions.

Mothballing under-utilized buildings
AFRH is mothballing facilities within the 77 acre development zone in anticipation of leasing and/or development opportunities. Also, buildings that do not serve the current population such as the old security building, the former administration building, and the Grant Building are also closed and available for renovation and use by outside interests.

We had experts study and report on some other initiatives: shutting down the Power Plant, remapping utility grids (in anticipation of development in the 77 acres, Zone A depicted below), and revitalizing certain historic buildings through national program support.

Power Plant Re-Focus
The present power plant is old and distributes steam, which requires full-time licensed operators and utilizes old underground distribution lines. For several years AFRH has been exploring economies that would be available from decentralizing these steam heating systems and installing modular systems, which don't require operators, in each of the buildings. With the October 2009 Presidential Executive Order on energy, AFRH reviewed and modified its plans for the power plant in accordance with the guidance in the Executive Order. A gradual transition from the central plant is necessary to comply. The

recommendation now is to incorporate new modular heating systems within each new project, including the Scott Project, until the rest of the campus can be converted and the steam plant may be shut down.



AFRH Campus Plan

BUDGET IMPLICATIONS

We have set the groundwork to reduce operational costs in Washington as residents move back to Gulfport and we “rightsize” the campus.

Although the agency is reflecting a decrease in funding overall for FY 2011, the agency's annual operating costs will increase by $7.2 million. The growth is associated with our new 660 thousand square foot facility in Gulfport, MS and a continuation of the growth, which started in 2010 with approximately $9 million to stand up a workforce and initiate base year contracts for full operations beginning October 2010. FY 2011 marks the last year of growth as the new facility begins full operations at Gulfport, MS on October 1, 2010.

Although the last quarter of 2010 is targeted for the initial standup of the Gulfport facility, residents will not occupy the facility until first quarter of 2011. Hiring for the AFRH-Gulfport will begin in January 2010 with the Director position. Although we are reducing the Washington Campus by 52 FTE, the Gulfport Campus will grow by 81 FTE, producing a net growth of 29 FTE in FY 2011. Key cost drivers are: Facility and Grounds Maintenance; Custodial; Dining Services; Subsistence; Utilities; Wellness Center; Dental and Optometry; Nursing; and Transportation.

We expect our Budget Authority to stabilize in 2011 as resources (funding and FTE) continue to shift from Washington to Gulfport. Although we are standing up Gulfport in 2011, the Assisted Living, Memory Support, and Long-term care population will grow as resident's age in place. Initially in Gulfport we are planning for few beds in these levels of care, which will drawdown our costs across the agency.

We are working on multiple initiatives to reduce costs in the out years. Our primary efforts are Tricare coverage for all AFRH residents and an "Independent Living Plus" program to assist our residents with aging in place. We believe both of these efforts will reduce costs up to $4 million per year to the Trust Fund while enhancing the care and wellbeing of our residents.

The greatest risk to the Trust Fund will occur over the next four transition years (e.g. 2010 - 2013) as we standup operations in Gulfport and transition to a reduced the footprint in Washington. Many of the infrastructure and new facility changes occurring at AFRH will have a positive, direct impact on the solvency of the Trust Fund. Although we recognize negative growth will occur between the transition years as we expense the Scott Project, we expect positive growth to continue after 2013. Along with our Tricare initiative, we are also reviewing our fee structure and enhancing staffing at the agency level to meet growing demands of the transition years. As we move forward to our vision of a vibrant, economical operation at both AFRH campuses, we continue to work to use our funding wisely and in the best interest of our stakeholders.

FY 2010 BUDGET

The Congressional budget request for FY 2010 equaled $134 million with $62 million in O&M and $72 million in Capital Improvements. This meant a $7 million growth to begin the start-up of Gulfport, but since construction may be completed sooner than expected; the cost has risen to $9 million. The Scott Project requires $70 million. We anticipated $69 million in revenue, but received only $61 million. In the out years we face financial challenges in actually realizing savings in all operational costs in Washington and in developing true costs for Gulfport operations.

SCOTT PROJECT

The expenditures of $5.6 million in FY 2009 and $70 million in FY 2010 from the Trust Fund provide a strong Return on Investment (ROI). The budget forecast show that operating costs for the Washington campus will reduce from $45.9 million in 2009 to $38.3 million in 2013. The 2009 cost (inflated @ 2.1%) becomes $49.9 million in 2013. This savings will provide an annual ROI of 29% on the $76 million construction investment from the new facilities and operating processes.

Reduction in AFRH-W costs will reach 14% in 2011. The Scott Project will generate savings in all major cost drivers by 2014:

- Dining Services –closure of a dining facility and associated operations = $1.6M
- Eliminate on campus transportation requirement = $144K
- Reduce custodial requirement by approximately 40% = $857K
- Reduce facility maintenance requirements by greater than 50% = $1M
- Reduce subsistence costs by approximately 40% = $1.7M
- Reduce utilities costs by approximately 44% or greater = $2M
- Reduce nursing staff by almost 50% from FY09 levels = $6M

The Scott Project also accomplishes the following:

- Closes LaGarde Facility
- Relocates all Assisted Living, Memory Support, and Long-term Care from LaGarde to renovated or new space within Sheridan and Scott footprint.
- Reduces square footage by approximately 44% or 386,000 square feet
- Postures AFRH Operations for positive Trust Fund Growth
- Creates similar capacity and service capabilities between AFRH-G and AFRH-W

TRANSITION YEARS FY 2010-2013

Starting with the completion of construction in Gulfport in third quarter FY 2010, AFRH will be readying to open Gulfport for occupancy in October 2010 (FY 2011). Soon thereafter, the population of Washington will begin to reduce going from approximately 1,000 in FY 2010 to a target of 568. There will be a shift of Full-time Equivalents (FTE) from all working in Washington to a mix between Gulfport and Washington.

Cost savings associated with the Gulfport Stand-up are as follows:

- No LTC costs for a few years
- Reduced dining services and subsistence
- Minimal maintenance costs (PM Focus)
- Less than 50% AL & MS requirement
- Begins significant drawdown of Washington
- Lower cost of living for shifting costs

There are risks, however, during the transition years:
1-being able to attain the target reduced population in Washington
2-successfully rescoping contracts in Washington

- Facility Maintenance
- Grounds Maintenance
- Dining Services
- Custodial
- Transportation
- Pharmacy and Medical Supplies
- Nurse Staffing

3-Contract strategy

- New contracts for transition years vice mods for reduced scope
- New contracts beginning 2013
- Fight for same costs at Gulfport and Washington for Dining Services and Custodial contracts

4-Tricare for all Residents

- Savings in multiple areas
- Integrated primary and specialty care
- Medicare and Tricare
- Tricare excellent Pharmacy coverage

5-Expected savings from Tricare implementation

- Transportation -$359K
- Wellness Clinic; Dental; reduced Clinical & Nutrition Services = $1.9M x 2
- Integrated electronic charting for Primary and Specialty Care
- The right service provider can operate the AFRH wellness center; bill Medicare, Medicaid, and Tricare; integrate primary and specialty care along with providing transportation to specialty care if needed; and integrate electronic medical records for primary and specialty care.

CURRENT CHALLENGES

Nearly two centuries ago, the leaders of our young nation made a Promise to care for our aging and infirm retired military personnel. This pledge would serve as a payback to soldiers for risking their lives to preserve democracy. In 1811, Congress fulfilled this Promise by passing legislation that created a home for destitute Navy officers, sailors and Marines in Philadelphia. Over the centuries, the Home has evolved into a modern retirement community: the AFRH.

Today, we continue to provide shelter and care for former enlisted military, Warrant Officers and veterans as they age. This care demonstrates to today's soldiers – and tomorrow's veterans – that their service and sacrifices won't be forgotten. Just as our brave young men and women helped save the world from fascism in the 20th Century, today's heroes can fight for and preserve our way of life – knowing their country will repay them for their service. Now, more than ever, the AFRH and Congress are bound to honor that original Promise, the Home's heritage and the tradition of the US military.

Accreditation and Inspection

The National Defense Authorization Act (NDAA) of 2008 required the AFRH to seek a more comprehensive accreditation service to review its healthcare practices. In FY07, the AFRH embarked on acquiring such a new independent accreditation. Throughout FY08, the AFRH worked very diligently to implement new standards in accordance with those set forth by the Commission on Accreditation of Rehabilitation Facilities (CARF)/ the Continuing Care Accreditation Commission (CCAC) International, an independent, nonprofit accreditor of human service providers in the areas of aging services, behavioral health, child and youth services, DMEPOS, employment and community services, medical rehabilitation, and opioid treatment programs. The CARF/CCAC family of organizations currently accredits more than 5,000 providers at more than 18,000 locations in the United States, Canada, Western Europe, and South America. More than 6.5 million persons of all ages are served annually by CARF/CCAC accredited providers. The CARF/CCAC accreditation replaces the long standing Joint Commission on Accreditation of Healthcare Organizations (JCAHO) accreditation held by AFRH for nursing care only. The AFRH received a 5 year accreditation by CARF/CCAC in August 2008.

In addition to the CARF/CCAC inspection, the NDAA of 2008, changed the manner in which the Department of Defense conducts inspections of the AFRH. No longer will the agency be inspected by the services (Army, Navy and Air Force) triennially. The Department of Defense's Inspector General's Office (DoD OIG) will now inspect the AFRH in the years that the agency is not inspected by an independent accreditation body. The DoD OIG will conduct its initial inspection of the AFRH during the fourth quarter FY09.

In accordance with the Reports Consolidation Act of 2000, the AFRH Inspector General (IG) identified the most serious management and performance challenges facing the AFRH in FY 2010.

Management Challenges

1-Initiate Gulfport Stand-up

A major initiative was involving residents in their return to Gulfport. So, focus groups meet monthly to discuss topics like the new building layout, rooms, communications, move transport and more. Plus Q&As were gathered, then compiled in the Communications Plan and posted on afrh.gov.

The Gulfport Startup Committee was formed and holds meetings to share news with residents and staff. They have chosen names for the resident towers and activity spaces.

Agency staff members are monitoring construction progress, which is on schedule. Planning for contracts, campus operations and hiring has begun.

2- Deploy and manage Scott Project

The Scott Project officially began in 2009. Funds for the design were expended, Bridging Architects/ Construction Managers contracts were awarded, and development of the POR began.

A resident focus group commenced, with Q&As compiled in the Communications Plan. Residents now meet monthly to hear about conceptual designs, transition plans and new amenities (like IT, communications and security).

3-Advance wellbeing to residents and staff
Resident wellbeing was singled out as a key High-Priority Performance Goal. Currently the Home is spearheading construction at both communities to fulfill resident wellbeing and Aging in Place – and promote fitness and ADA compliance.

Aging in Place endeavors ramped up this year. We had ongoing management deliberations, and staff discussions. And using special presentations in both Town Halls and Focus Groups, we actively sought resident input to refine preferences and amenities.

Aging in Place is also listed as a key action in our Business Plans. Yet it was identified as a "high risk" in our Risk Management Plan with mitigating actions.

Performance Challenges

1- Deploy SHCP
Our SHCP (Strategic Human Capital Plan) was drafted with specific, measurable goals and objectives. Its execution will continue as planned next year.

2-Employ SHCP "Succession Plan"
Part of the SHCP is an essential succession plan – which outlines backup roles in key management positions, and helps the Home meet Federal guidelines.

3-Define Staffing Models
Detailed staffing models were created for future years. The LRFP was updated with these models – and they verified our forecast for Trust Fund solvency.

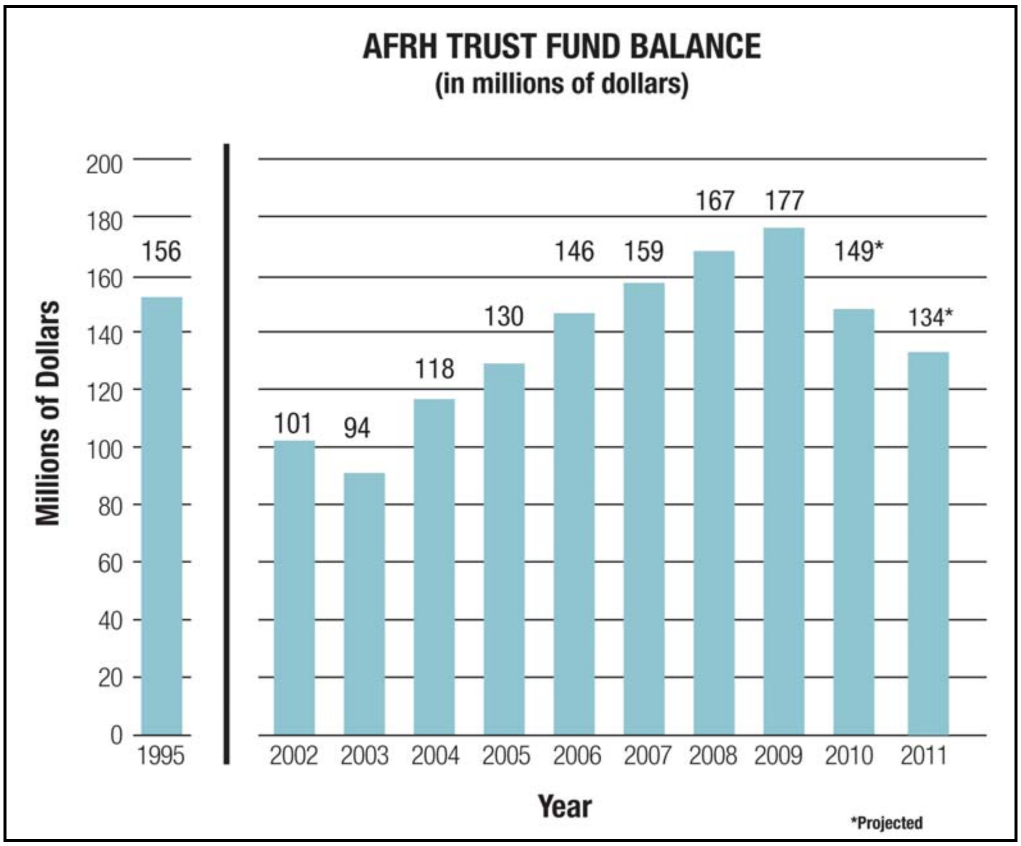
4-Promote military heritage
We continued year-round celebrations that honor military birthdays and key service events. Plus AFRH celebrated its inaugural "Freedom Day."
In order to sustain the progress that has been made by the AFRH through its initiatives and programs, the AFRH IG will continue to monitor the outcomes of the areas identified.

BUDGET HIGHLIGHTS

TRUST FUND BALANCE

In 2003, operating costs greatly increased over previous years – eventually outpacing our revenue. The Trust Fund balance declined from $156 million in 1995 to $94 million in 2003. Renewing it became a critical mandate to retain the Home's solvency. So, we concluded our operating model had to change. We followed the Federal government's lead for an integrated strategy – linking planning with budget and performance. From 2003 – 2007, we aggressively developed a disciplined strategic plan that netted many gains. The result: the Trust Fund balance swelled to $167 million at the end of FY08 and is expected to reach $171 million in FY09. However, with the Scott Project on the horizon, operating costs and capital improvements taken out of the Trust Fund will diminish the Trust Fund balance in 2010 to $149 million and in 2011 to $134 million.

The Trust Fund Balance has been steadily increasing since 2003, but will decrease with withdrawals for Gulfport and the Scott Project in 2010:



[NOTE: The drop from $171 million to $149 million is reflection of the $21 million expense in rebuilding Gulfport and the beginning of the Scott Project expense of $8M.]

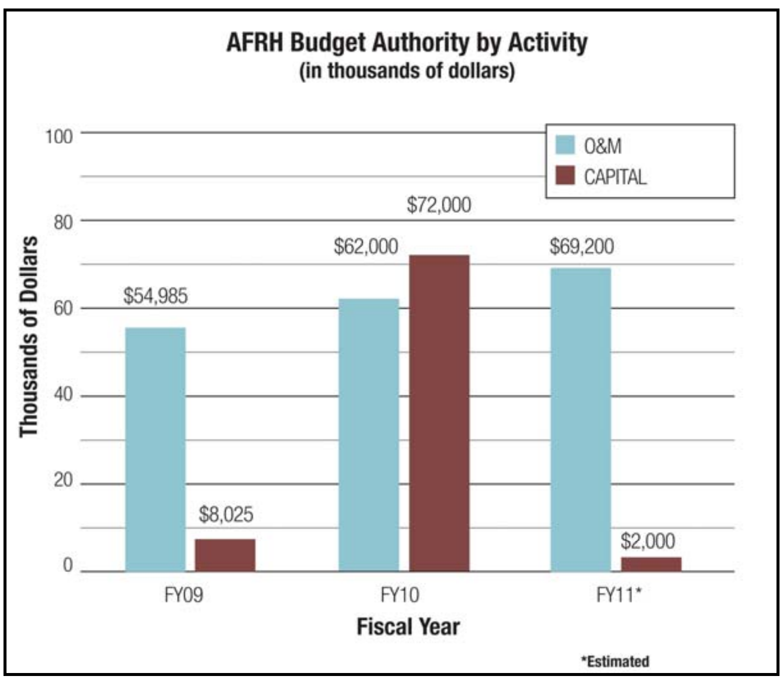
JUSTIFICATION HIGHLIGHTS

Budget Authority

ARMED FORCES RETIREMENT HOME
BUDGET AUTHORITY BY ACTIVITY
($ in Thousands)

	FY 09 Actual Amount	FY 10 Actual Amount	FY 11 Est Amount	FY10-11 Increase or Decrease Amount
TOTAL BUDGET AUTHORITY				
O & M BUDGET AUTHORITY	$54,985	$ 62,000	$ 69,200	$ 7,200*
CAPITAL AUTHORITY	$ 8,025	$ 72,000	$ 2,000	$ (70,000)
TOTAL BUDGET AUTHORITY	$63,010	$134,000	$ 71,200	$ (62,800)
TOTAL FTE's	268	307	336	29*

*[NOTE: Growth is due to beginning operations at Gulfport.]



Capital Outlay

ARMED FORCES RETIREMENT HOME
CAPITAL OUTLAY
($ in Thousands)

FY10 CAPITAL APPROPRIATION		
Scott Project planning, construction and construction management	$5,635	
LaGarde Building	$200	
Sheridan Building Repairs	$600	
Scott Building Emergency Repair	$200	
Sherman Building Repairs	$410	
Other Repairs (not anticipated by facility assessment)	$530	
A/E Design Fee	$200	
Master Plan – GSA	$250	
TOTAL	$8,025	$8,025

FY10 CAPITAL APPROPRIATION		
Scott Project planning, construction and construction management	$70,000	
LaGarde Building	$ 200	
Sheridan Building Repairs	$ 450	
Scott Building Emergency Repair	$ 0	
Sherman Building Repairs	$ 400	
Other Repairs (not anticipated by facility assessment)	$ 500	
A/E Design Fee	$ 200	
Master Plan – GSA	$ 250	
TOTAL	$72,000	$72,000

FY11 CAPITAL APPROPRIATION		
Scott Project planning, construction and construction management	$ 0	
LaGarde Building	$ 150	
Sheridan Building Repairs	$ 440	
Scott Building Emergency Repair	$ 0	
Sherman Building Repairs	$ 385	
Other Repairs (not anticipated by facility assessment)	$ 350	
A/E Design Fee	$ 150	
Master Plan – GSA	$ 310	
TOTAL	$ 2,000	$ 2,000

Summary of Changes (O&M)

ARMED FORCES RETIREMENT HOME
SUMMARY OF CHANGES (O&M)
($ in Thousands)

FY10 O&M Appropriation	$62,000	$62,000
FY11 O&M Request	$69,200	$69,200
Net Change		**$ 7,200**

	FY2010 Base		FY2011 Change from Base	
Changes:	Workyears (FTE's)	Budget Authority	Workyears (FTE's)	Budget Authority
A. Built-In:				
1. Base Payroll Costs*	307	$24,905	29	$3,486
2. Non-salary increases:				
Travel/Leases		$ 188		$ 34
Transportation*		$ 68		$ 400
Communications/ Utilities*		$ 5,336		$2,867
Printing		$ 137		$ 4
Other Services (Contracts)*		$26,013		$ (629)
Supplies & Materials*		$ 5,225		$ 1,112
Equipment		$ 128		$ (74)
Total Non-Salary Increase:		**$37,095**		**$3,714**
TOTAL BUILT-IN INCREASES		**$62,000**		**$7,200**
NET CHANGE				**$7,200**

*[NOTE: Labor (to include potential recruitment and relocation expenses for key Gulfport personnel), Moving costs for residents, Communications/ Utilities, Contracts, and Operational Costs are for the stand up of Gulfport plus minor costs associated with start of Scott Project]

Total Obligations by Object Class

ARMED FORCES RETIREMENT HOME

TOTAL OBLIGATIONS BY OBJECT CLASS

($ in Thousands)

		FY 09 ACTUAL	FY 10 ESTIMATE	FY11 ESTIMATE	INCREASE (DECREASE)
11	PERSONNEL COMPENSATION	$16,337	$18,801	$21,109	$2,308
12	PERSONNEL BENEFITS	$ 4,491	$6,103	$7,281	$1,178
13	BENEFITS, FORMER PERSONNEL	$11	$0	$0	$0
21	TRAVEL/LEASING	$105	$188	$223	$35
22	TRANSPORTATION OF THINGS	$68	$68	$468	$400
23	COMMUNICATIONS & UTILITIES	$5,405	$5,336	$8,203	$2,867
24	PRINTING AND REPRODUCTION	$111	$137	$140	$4
25	OTHER SERVICES	$21,694	$26,014	$25,384	($630)
26	SUPPLIES AND MATERIALS	$4,605	$5,225	$6,337	$1,112
31	EQUIPMENT	$45	$128	$54	($74)
32	LAND & STRUCTURES (CAPITAL OUTLAY)	$15,825	$72,000	$2,000	($70,000)
42	CLAIMS	$62	-	-	-
				-	-
	TOTAL OBLIGATIONS	$69,034	$134, 000	$71,200	($62,800)
	NUMBER OF FTE	268	307	336	29

[NOTE: O&M and Capital outlay increases due to Scott Project and Gulfport stand up.]

Appropriations History FY 1995-2011

ARMED FORCES RETIREMENT HOME
APPROPRIATIONS HISTORY FY 1995-2011
($ in Thousands)

FISCAL YEAR	DESCRIPTION	CONGRESSIONAL BUDGET JUSTIFICATION	AUTHORIZED	APPROPRIATION HOUSE ALLOWANCE	SENATE ALLOWANCE	FINAL APPROPRIATION
1995	O&M	55,140	56,411	56,910	56,931	56,411
	CO	2,906	2,906	2,906	2,906	2,906
	Total	58,046	59,317	59,816	59,837	59,317
1996	O&M	57,069	57,069	56,135	51,898	53,931
	CO	2,051	2,051	2,051	1,857	1,954
	Total	59,120	59,120	58,186	53,755	55,885
1997	O&M	55,340	56,868	52,752	55,772	55,772
	CO	432	432	432	432	432
	Total	55,772	57,300	53,184	56,204	56,204
1998	O&M	55,452	55,452	55,452	55,452	55,452
	CO	24,525	24,525	13,217	10,000	13,217
	Total	79,977	79,977	68,669	65,452	68,669
1999	O&M	55,028	55,028	55,028	55,028	55,028
	CO	15,717	15,717	15,717	15,717	15,717
	Total	70,745	70,745	70,745	70,745	70,745
2000	O&M	55,599	55,599	55,599	55,599	55,599
	CO	12,436	12,436	12,436	12,436	12,436
	Total	68,035	68,035	68,035	68,035	68,035
2001	O&M	60,000	60,000	60,000	60,000	60,000
	CO	9,832	9,832	9,832	9,832	9,832
	Total	69,832	69,832	69,832	69,832	69,832
2002	O&M	61,628	61,628	61,628	61,628	61,628
	CO	9,812	9,812	9,812	9,812	9,812
	Total	71,440	71,440	71,440	71,440	71,440
2003	O&M	61,628	61,839	61,839	61,839	61,839
	CO	5,712	5,769	5,769	5,769	5,769
	Total	67,340	67,608	67,608	67,608	67,608
2004	O&M	63,926	63,296	63,296	63,296	63,296
	CO	1,983	1,983	1,983	1,983	1,983
	Total	65,909	65,279	65,279	65,279	65,279

2005	O&M	57,195	57,163	57,163	57,163	57,163
	CO	4,000	3,968	3,968	3,968	3,968
	PUBLIC LAW 109-62*	6,000	6,000	6,000	6,000	6,000
	Total	67,195	67,131	67,131	67,131	67,131
2006	O&M	57,033	57,033	57,033	57,033	56,463
	CO	1,248	1,248	1,248	1,248	1,236
	PUBLIC LAW 109-148**	0	65,800	65,800	65,800	65,800
	PUBLIC LAW 109-234**	0	176,000	176,000	176,000	176,000
	Total	58,281	300,081	300,081	300,081	299,499
2007	O&M	54,846	54,846	54,846	54,846	54,846
	CO	0				
	Total	54,846	54,846	54,846	54,846	54,846
2008	O&M	55,724	56,524	56,524	56,524	55,724
	CO					
	Total	55,724	56,524	56,524	56,524	55,724
2009	O&M	54,985	54,985	54,985	54,985	54,985
	CO	8,025	8,025	8,025	8,025	8,025
	Total	63,010	63,010	63,010	63,010	63,010
2010	O&M	62,000	62,000	62,000	62,000	62,000
	CO	72,000	72,000	72,000	72,000	72,000
	Total	134,000	134,000	134,000	134,000	134,000
2011	O&M	69,200				
	CO	2,000				
	Total	71,200				

[NOTE:(*) Supplemental funding from the General Fund as a result of Hurricane Katrina for the movement and stabilization of displaced residents from Gulfport in Fiscal Year 2005.
(**) Majority of Supplemental funding from the General Fund as a result of Hurricane Katrina for the stand up of the Gulfport Campus.]

Staffing History

ARMED FORCES RETIREMENT HOME
STAFFING HISTORY
($ in Thousands)

FISCAL YEAR	SALARIES & BENEFITS	FTE's
1995	39,312	989
1996	37,655	903
1997	37,671	865
1998	37,605	841
1999	37,419	799
2000	38,612	753
2001	38,292	734
2002	41,936	736
2003	40,495	683
2004	35,870	548
2005	30,684	446
2006*	25,754	299
2007	22,460	288
2008	24,043	283
2009	21,120	268
2010**	24,906	307
2011**	28,390	336

[NOTE:
(*) The significant reduction in FTE in 2006 was a result of Hurricane Katrina and the closure of the Gulfport Facility.]
(**) Growth is the result of opening Gulfport.

Resident Data

ARMED FORCES RETIREMENT HOME
RESIDENT DATA

	Actual FY09	EST. FY10	EST. FY11
Domiciliary Care	775	775	924
Health Care	202	202	235
Total Residents	977	977	1,159
Operating Budget	$ 54,985,000	$ 62,000,000	$ 69,200,000
Capital Outlay	$ 8,025,000	$ 72,000,000	$ 2,000,000
Total Budget	$ 63,010,000	$ 134,000,000	$ 71,200,000
Operating Budget Per Resident*	$56,279	$63,460*	$59,707*

[NOTE: (*) Higher costs per resident in 2010 are a reflection of Scott Project and stand up of Gulfport; average costs decrease in 2011 with increased population.]